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SENSITIVE
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H PLEASE PASS TO SENATOR MURRAY

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SUBJECT: SCENESETTER FOR CODEL MURRAY

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¶1. (SBU) Senator Murray, your delegation will arrive in Beijing and Shanghai two months after President Obama's November 15-18 visit to China. Overall, the Chinese leadership is pleased with the direction of U.S.-China relations and your hosts will likely frame this session of U.S.-China Interparliamentary dialogue as building on the momentum created by the President's visit. Your arrival kicks off what will be a busy year in U.S.-China relations, a year that will include a round of the U.S.-China human rights dialogue in February, the next round of the Strategic and Economic Dialogue in July, and a reciprocal visit by President Hu Jintao to the United States. While China has weathered the global financial crisis better than most other major economies, the leadership is facing serious domestic challenges due to the growing gap between rich and poor, severe environmental degradation, and unrest in the minority regions of Tibet and Xinjiang. The Communist Party remains extremely sensitive on issues related to political reform, rule of law, civil society and human rights. 2009 has not been a good year for human rights in China: harsh security policies remained in Tibetan regions, civil society groups faced intense scrutiny and harassment, the government stripped a number of prominent human rights lawyers of their licenses, house churches were closed, police locked up dissidents during sensitive anniversaries (including the twentieth anniversary of the 1989 Tiananmen demonstrations and the sixtieth anniversary of the founding of the PRC) and Communist Party propaganda officials tightened controls over the domestic media, including the Internet.

Bilateral Relations

¶2. (SBU) In Beijing last month, Presidents Obama and Hu Jintao agreed to expand cooperation in a wide range of areas, from aviation, to public health, to clean energy. The breadth of issues on which we engage China diplomatically has increased dramatically over the past thirty years since the United States and the People's Republic of China established diplomatic relations. We seek a mature relationship with China -- a relationship where our leaders can talk frankly about issues where we disagree such as human rights, while also constructively engaging on vital issues of mutual concern like energy security, the environment, the global economic situation and regional security.

¶3. (SBU) As President Obama and President Hu agreed at their first meeting in London in April 2009, we

are working to build a "positive, cooperative and comprehensive bilateral relationship." During his visit to Beijing, President Obama stated that "the United States welcomes China's efforts in playing a greater role on the world stage -- a role in which a growing economy is joined by growing responsibilities." The Chinese have taken note of the importance President Obama and Secretary Clinton have placed on the bilateral relationship and have also adopted a constructive approach to our enhanced Strategic and Economic Dialogue, the first session of which took place July 27 in Washington. Visits to China by Secretary of Commerce Gary Locke and Secretary of Energy Steven Chu, who came to China together in July and accompanied the President to China in November, have also received positive coverage by the Chinese media. We continue to push for increased PRC cooperation on North Korea, Iran, Pakistan, Afghanistan and Sudan. Your visit presents an important opportunity for your hosts to hear your views on these issues and your suggestions on how inter-parliamentary exchanges can contribute to the bilateral relationship.

North Korea

14. (SBU) The PRC plays a vital role as host of the Six-Party Talks, and we have developed a close working relationship with our Chinese counterparts. The Talks are aimed at the peaceful resolution of the security concerns surrounding the DPRK's nuclear

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weapons program. Since the 2003 inception of the Six-Party Talks, Chinese and American experts have demonstrated an ability to cooperate and work together to address a shared threat.

15. (SBU) On April 5, 2009, North Korea conducted a missile launch that tested a Taepodong-2 ICBM, a move that caused the Security Council to unanimously issue a Presidential Statement condemning the launch. North Korea responded by declaring it was no longer bound by the terms of the Six-Party Talks, expelling IAEA nuclear inspectors and, on May 25 exploded a nuclear device underground. The UN reacted by adopting unanimously UN Security Council Resolution (UNSCR) 1874 which imposed additional sanctions on North Korea. Since that time, the United States Government has adopted a two-pronged approach towards the DPRK. Special Representative Stephen Bosworth leads our efforts to bring North Korea back into the Six-Party Talks and acknowledge its international responsibilities. Ambassador Philip Goldberg leads our international approach to enforce the UNSCR 1874 sanctions. Ambassador Goldberg has visited Beijing twice to share information and exchange views on sanctions while Ambassador Bosworth has been in regular contact with the Chinese Chair of the Six-Party Talks. Ambassador Bosworth was in Beijing December 11-12 to brief the Chinese on his December 8-10 trip to Pyongyang and to explore next steps.

Iran

16. (SBU) We have emphasized with our PRC counterparts that Iran's failure to follow through on the understandings reached in Geneva on October 1 with the "P5 1" group (which consists of the UN Security Council permanent members plus Germany) -- including its retreat from the IAEA plan to address the low-enriched uranium (LEU)/nuclear fuel issue and its unwillingness to meet with the P5 1

countries for talks focused on the nuclear issue -- demonstrates a worrying resolve by the Iranians not to engage diplomatically under current circumstances. Our PRC interlocutors have counseled patience in pursuing diplomatic engagement, but we have emphasized, consistent with our dual track approach, the need to impress upon the Iranians that there are consequences for their non-cooperative behavior. The resolution passed by the IAEA Board of Governors was an important signal of international unity and commitment to upholding the non-proliferation regime.

Taiwan

17. (SBU) Your interlocutors may raise Taiwan and strong criticism, based on recent media reports, of U.S. arms sales to Taiwan. We suggest you respond by welcoming recent improvements in cross-Straits ties achieved by PRC President Hu and Taiwan President Ma Ying-jeou. You may also choose to respond by emphasizing our obligations under the Taiwan Relations Act to consider Taiwan's legitimate defense needs and that we believe our sales of defense articles to Taiwan have been conducive to cross-Straits peace and stability. You can encourage Beijing to maintain positive cross-Straits momentum by accommodating Taiwan's meaningful participation in international organizations, reducing military deployments, particularly missiles aimed at Taiwan, and continuing to make progress on cross-Straits economic and cultural ties.

Human Rights

18. (SBU) As the President said during his visit to China, we believe that human rights are fundamental and universal values, as the Chinese themselves acknowledged when they signed the Universal Declaration of Human Rights. The PRC government defines human rights broadly to include factors affecting economic and social well-being, and regularly points out that China's "reform and opening" policies over the past 30 years have coincided with improvements in the quality of life enjoyed by hundreds of millions of Chinese. The

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Chinese also claim that our focus on individual rights and liberties reflects Western, not universal, values. Although personal freedoms for Chinese citizens have expanded over the past three decades, the overall human rights situation in China remains poor. Secretary Clinton, in a speech at Georgetown University December 10, said "in China, we call for protection of rights of minorities in Tibet and Xinjiang; for the rights to express oneself and worship freely; and for civil society and religious organizations to advocate their positions within a framework of the rule of law." In our bilateral engagement with China we continue to emphasize that the expansion of individual freedoms and the establishment of a free and independent judiciary and greater internet and press freedoms would strengthen, not threaten, China.

Ethnic Unrest in Xinjiang and Tibet

19. (SBU) This year saw violent ethnic rioting in China's far western Xinjiang Autonomous Region. Clashes between Uighurs (a Turkic Muslim minority group) and Han Chinese July 5-7 left 197 dead in Urumqi, the regional capital. The riots

precipitated a massive security response by the Chinese government including deployments of large numbers of security forces to Xinjiang and the blocking of the Internet in the entire region; measures which remain in place today. China's Uighur minority has long complained of human rights and religious freedom abuses by the Communist Party which maintains tight controls on the practice of Islam in Uighur communities. Officially, China has characterized the July riots a "terrorist attack" that was coordinated from abroad. You may wish to urge China to investigate the root causes of these ethnic tensions, including PRC policies that contribute to the Uighurs' sense of alienation from Chinese society.

¶10. (SBU) Tibetan areas of China remain mostly calm but tense following widespread unrest in March 2008. China opposes any meetings between U.S. officials or members of Congress and the Dalai Lama. Your hosts will likely ask you and members of your delegation to refrain from meeting the Dalai Lama when he next visits the United States. You may wish to reply by urging the PRC to meet with representatives of the Dalai Lama and resume talks which were suspended in November, 2008. The Dalai Lama rejects violence and has said repeatedly he is seeking autonomy within the Chinese constitution, not independence, for Tibet. You could also urge China to open Tibet to foreign journalists, members of Congress and U.S. officials, who, with the exception of rare, closely supervised, visits, are excluded from the region.

Response to the Financial Crisis

¶11. (SBU) China's financial system was relatively insulated from the global financial unrest, and Beijing's rapid response to the economic crisis has, in general, been responsible and helpful. They have continued to buy U.S. Treasury bills and agency (including Fannie Mae and Freddie Mac) debt, and have worked with the United States in international fora, such as the G-20 Leaders' meetings, as well as bilaterally through the Strategic and Economic Dialogue to promote global financial stability. We have urged China to provide additional resources to the IMF and made clear our support for reforming that institution.

¶12. (SBU) China's export industries were hard-hit by the global economic downturn. Exports in the first ten months of this year were down around 21 percent compared to the same period last year, although November data indicate the first positive change in a year. The Chinese government has compensated for the export decline through massive fiscal and monetary stimulus programs, largely focused on infrastructure investment. Rising domestic household consumption also has bolstered growth this year. The result is that GDP growth should meet or exceed the government's eight percent target for 2009, and may accelerate slightly to 8.5-9.0 percent in 2010. In recent policy announcements, the

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government indicated it will continue the fiscal stimulus measures in 2010, while carefully moderating new credit issuance. Beijing also intends to shift slightly the stimulus focus and improve the "quality of growth" by directing more resources to domestic consumption and sectors such as housing, health care, and education.

¶13. (SBU) Throughout this process the United States and other governments have encouraged Beijing's

strong actions to stimulate its economy, and we welcome its initiatives to promote rebalancing and long term sustainability. We also repeatedly have cautioned Chinese counterparts that, with U.S. savings rates apparently returning to more typical historical levels, the PRC should not expect American consumers to continue to absorb China's excess production, meaning that China will need to identify other growth engines for its economy; such changes would be in China's own interests and improve the standard of living for its people. We and others also point out that, as we have seen in the United States, high growth of bank lending and lack of transparency in China can be a cause for concern. In addition, a more flexible exchange rate is one part of a policy mix that can promote more harmonious, balanced growth.

China's Concerns

¶14. (SBU) You will likely hear Chinese concerns that large and continuing U.S. fiscal deficits could generate inflation in the United States that would erode the value of their dollar denominated assets ("please protect China's U.S. investments"). Some of their proposals to supplant the dollar with an alternative international reserve currency, as well as initial efforts to promote greater internationalization of the Chinese currency (RMB), appear derived from these insecurities. You may wish to remind your interlocutors that the majority of Treasuries are held by Americans (China holds only about seven percent of outstanding USG debt and fourteen percent of publically held debt), and make a strong statement indicating our intention to fight inflation so that it does not erode our own citizens' assets -- such a statement would help promote understanding of the situation. Chinese interlocutors would also be interested in hearing the Congressional position on future budget deficits and the future restructuring of Fannie Mae and Freddie Mac.

Our Concerns

¶15. (SBU) The majority of U.S. businesses operating here remain profitable, especially those that are selling into the Chinese domestic market. However, despite China's frequent calls to ban "protectionism" and Chinese claims that they have no "Buy Chinese" policy in their stimulus package, U.S. businesses say that the Chinese government puts severe restrictions on U.S. companies' ability to compete successfully for stimulus-related contracts. These biases have exacerbated pre-crisis favoritism for domestic firms through use of unique national standards, requirements to force firms into joint ventures with Chinese partners, slower licensing for foreign firms, and the drafting of selective contract specifications to favor domestic firms. It is valuable to emphasize the reality of the "Buy American" requirements in the U.S. stimulus, including their limited scope. Secretary of Commerce Locke made this point emphatically during his visit here in mid-July.

¶16. (SBU) China's propensity to employ state power in business disputes involving state-owned enterprises is another area of concern for us. The signature recent example of this was the arrest under state secrets laws of Australian and Chinese national staff of the Australian mining concern Rio Tinto, which was involved in complicated discussions, almost all of which to our knowledge was derived from the public record, with Chinese enterprises relating to ongoing iron ore sales and a

possible merger/acquisition. There have been other similar cases, including some involving American

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citizens. We have made the case to the Chinese that overbroad interpretations of the state secrets law to threaten and punish foreign business partners is inconsistent with international norms and damages China's reputation and attractiveness as an investment destination.

Boeing and Microsoft

¶17. (SBU) Boeing traditionally has dominated the aircraft market in China, helping the U.S. achieve an annual USD 6-8 billion trade surplus in this sector. In spite of the economic downturn, Boeing estimates that China will require an additional 3,700 airplanes worth \$390 billion to satisfy demand over the next 20 years. Boeing sells an average of 60-80 aircraft a year in China and shares the market for narrow body aircraft roughly 50/50 with Airbus. In late 2008, the Civil Aviation Administration of China encouraged Chinese airlines to delay or cancel aircraft deliveries in 2009 to cope with the economic downturn, but Boeing has not publicly announced any cancelled orders. Chinese officials have been particularly vocal about their dissatisfaction with Boeing 787 delivery delays, which they claim have hampered their expansion plans, although Chinese orders account for just seven percent of the 850 outstanding 787 orders. The Airbus strategy includes an assembly facility in Tianjin for the A320, with commitments for increasing local content. Boeing sources partly from Chinese firms, but has pursued cooperation in innovation, services and air traffic safety rather than localize production. Boeing anticipates China will become its largest aircraft market within twenty years, and views China's plans to manufacture commercial aircraft, such as the 150 passenger C919, as its greatest long-term competitive threat. Nevertheless, Boeing cooperates with local manufacturers and has not opposed their suppliers' involvement in these projects.

¶18. (SBU) Microsoft's number one problem in China is IPR violations, approximately 80 percent of software used in China is pirated. Microsoft is working closely with the Chinese government to create more understanding of the problem. The company is in talks with the Hangzhou municipal government in Zhejiang province to start a pilot project to help enterprises and government offices to identify the installations of pirated software. Microsoft has invested more than USD 1 billion in China and conducts cutting-edge research and development at centers throughout the country.

Shanghai: China's Commercial Capital

¶19. (SBU) Often called the "New York" of China, Shanghai is China's commercial capital and home to the world's busiest port. Shanghai enjoyed double-digit GDP growth for the 16 consecutive years prior to 2008 but fell below 10 percent in 2008, and GDP growth in the first quarter of 2009 dropped dramatically to 3.1 percent year-on-year. Growth rebounded in the second half of the year, however, and is GDP growth is expected to reach 8 percent for the year. Shanghai's per capita GDP remains more than USD 11,600, more than three times the national average. With its strategic location, highly skilled workforce and solid infrastructure, Shanghai is a

magnet for foreign direct investment (FDI). Foreign-invested companies account for half of Shanghai's trade and roughly 20 percent of employment.

U.S. Economic Presence in Shanghai

¶20. (SBU) Shanghai has over 5,500 U.S.-invested projects, including GM, Intel, GE, Kodak, and UPS. A majority of investment is in manufacturing, but investments in service industries are growing rapidly. U.S.-invested companies in Shanghai account for approximately one-eighth of the total of 40,000 foreign invested companies in Shanghai. The American Chamber of Commerce (AmCham) Shanghai, with more than 1,500 member companies and approximately 3,500 individual members, is Asia's largest American

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business organization. More than 25,000 Americans are long-term residents in the Shanghai Consular District (Shanghai and the provinces of Anhui, Jiangsu and Zhejiang), with up to 50,000 visiting at any time.

Gearing Up for the Shanghai 2010 World Expo

¶21. (SBU) As the Beijing Olympics were China's opportunity to introduce itself to the world, the longer, bigger Shanghai 2010 World Expo is a chance for the world to introduce itself to China. The Shanghai Expo, which will open on May 1, 2010, will be the largest World Expo in history with 192 countries and regions as participating exhibitors. The Expo will run through October 31, 2010 and Shanghai officials predict it will attract more than 70 million visitors, the vast majority from China. The theme of the Expo, "Better City - Better Life", signifies Shanghai's commitment to green urban development and status as a major economic and cultural center.

¶22. (SBU) The United States Government was able to confirm its participation in the Shanghai 2010 World Expo during summer 2009 after receiving sufficient support from the private sector. (Note: The State Department is prohibited by 1994 and 1999 statutes from spending appropriated funds to support a national pavilion in the absence of a specific Congressional authorization. End Note.) The estimated total budget of the USA Pavilion is USD 61 million, which includes all construction, staffing, operation, show presentations, and post-Expo building demolition and materials removal costs. Construction of the U.S. Pavilion began in July, and Commerce Secretary Gary Locke attended the groundbreaking ceremony. Most recently, Secretary Clinton visited the site in November.

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